

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT NOVEMBER 2006 VOLUME XXIV NO. 5

This *Outlook* recaps the latest installment of the *Idaho Economic Forecast* (October 2006). We review both the U.S. and Idaho economic prospects over the next few years. The U.S. economy is considered first. The nation's economy is expected to slow from a gallop to a trot over the next few quarters. Not surprisingly, two factors play major roles in this transition. They are the housing sector and energy prices. The cooling housing sector will take a toll on U.S. output. For example, the U.S. housing downturn chops 1.3 percentage points off of GDP in this year's third and fourth quarters, through its direct effect on construction. However, the negative impacts from housing will be dampened by falling energy prices.

Fears of major oil supply disruptions have all but disappeared, which have sharply reduced the market risk premium. Falling crude oil prices and plentiful supply have trimmed gasoline pump prices to their lowest level in over six months. Natural gas prices have also eased, thanks to healthy inventories. While prices might rise as demand increases during the winter, consumers should get some help due to the forecast of mild temperatures for the coming heating season. The energy price declines are akin to tax cuts for consumers. For example, it has been estimated the recent drop in gasoline prices have saved Americans \$84 billion, or 0.9% of disposable income. These consequences of falling energy prices have provided the Federal

Reserve with additional breathing room. Prior to the energy price declines, the nation's central bank was looking at the prospect of raising interest rates as the economy was beginning to cool, which would risk a replay of the early 1980s recession. As inflation fears subside, it appears the Federal Reserve has completed tightening. This policy should help the national economy successfully negotiate a soft landing.

The current Idaho economic forecast is best described as a tweaked version of July's forecast. That is, although some of the details are different, the general growth pattern is the same. Specifically, this summer it was predicted the Gem State would enjoy strong growth this year, thanks to a surge in the first half, and then expand more slowly. Another feature of the previous forecast was, despite the anticipated slowing, Idaho's economy would advance faster than the national economy.

According to the most current estimates based on Idaho Department of Commerce and Labor information, the state's nonfarm employment surged at a 7.4% annual rate in the first quarter of 2006 and by 2.8% in the following quarter. The growth in a couple of sectors is noteworthy. Construction employment increased an astronomical 34.2% in the first quarter and by 9.1% in the second quarter of this year. The state's huge services sector also produced robust job gains of 5.2% in the first quarter and 3.3% in the second quarter.

Idaho nominal personal income growth echoed the state's employment growth during this year's first half, growing 12.6% in the first quarter and 6.9% in the second quarter.

The cooling national economy will cause both Idaho nonfarm employment and personal income growth to slow from their previous pace. Idaho nonfarm employment growth is expected to slip under 3.0% in this year's remaining two quarters. Despite this slowing, Idaho annual nonfarm employment is expected to be 4.3% higher in 2006 than it was in 2005, which is its best showing in a dozen years. Idaho nominal personal income growth should downshift to under 7.0% in the second half of 2006. However, on an annual basis, it is expected to be 8.3% higher than in 2005. Both Idaho employment and personal income growth will drop beneath their 2006 banner showings in 2007. However, both are expected to continue to outpace their respective national counterparts. Idaho nonfarm employment should increase an average of 2.5% annually from 2006 to 2009. Over this same period U.S. nonfarm employment is predicted to rise 1.4% per year. Nominal Idaho personal income is forecast to advance an average of 6.8% per year, while national personal income averages 5.7% growth. After adjusting for inflation, Idaho personal income increases 4.8% annually. National real personal income averages 3.7% annual growth from 2006 to 2009.

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## General Fund Update

As of October 31, 2006

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY07 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,245.3	346.1	361.1
Corporate Income Tax	207.0	57.1	61.1
Sales Tax	1,074.6	328.4	341.8
Product Taxes <sup>1</sup>	21.7	11.2	10.0
Miscellaneous	113.9	25.9	32.3
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>2,662.5</b>	<b>768.7</b>	<b>806.3</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of August 2006

General Fund revenue continued its exceptional performance in October, coming in \$14.7 million above expectations for the month – the best month so far this fiscal year. Over two-thirds of this higher-than-expected revenue was in the individual income tax category. The sales tax was also quite strong in October, no doubt helped by the fact that September was the last month of Idaho's 5% sales tax rate. (October revenue reflects September sales activity.) On a year-to-date basis the General Fund now stands \$37.6 million ahead of the predicted amount.

Individual income tax revenue was \$9.9 million higher than expected in October, bringing the fiscal year-to-date excess for this category to \$15.0 million. The entire gain was in the filing payment component, which was \$10.1 million higher than expected. This brings cumulative filing

payments to a level \$17.3 million ahead of the predicted amount. Withholding payments were a much more modest \$1.3 million higher than expected in October, leaving this component of the individual income tax \$3.3 million below expectations. Refunds offset October's withholding gain, coming in \$1.4 million higher than expected for the month.

Corporate income tax revenue was almost exactly on target in October, coming in just \$0.2 million above expectations for the month. This revenue category now stands \$4.0 million ahead of the year-to-date predicted value. Estimated payments were \$2.4 million lower than expected for the month, but this was offset by refunds that were \$2.9 million lower than expected.

Sales tax revenue was \$3.5 million higher than expected in October,

making it the second strongest month for sales tax (relative to expectations) this fiscal year. October collections represent primarily September sales activity, so there is a strong likelihood that some of this strength was driven by anticipatory buying ahead of the October 1<sup>st</sup> increase to Idaho's new 6% sales tax rate. Another probable factor behind the continued strong sales tax performance is that Idaho has been lagging the nation in the widely reported housing and construction slowdown, thereby putting off the inevitable slowing in sales tax that will accompany the construction slowdown.

Product taxes and miscellaneous revenues were both slightly positive, coming in \$0.3 million and \$0.8 million, respectively, ahead of expectations for the month.